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Korea, Republic of

Agricultural Situation

Economic and Agricultural Overview

2003

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Report Highlights:

This report contains an economic and agricultural situation overview through September 2003.

Includes PSD Changes: No
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[KS]

I. Economic Situation

The following overview is a summary of the economic outlook for Korea developed by the Samsung Economic Research Institute (SERI) and was published in The Korea Herald on October 24, 2003.

A. Current state of the economy

The South Korean economy continues to slide downward. The poor performance is mainly ascribed to sluggish private consumption. The only bright spot being exports with 17.1 percent year-on-year growth for the period between January and September of this year.

Korea's sluggish economy is all the more notable in that the world economy is showing signs of recovery. In contrast, the Korean economy is likely to continue sagging in the latter half and post a growth rate of below 3 percent, which is deemed by SERI to be a recession level for the nation.

B. Roadblocks of the Korean economy in 2004

In 2004, external conditions will likely get better, as the global economy is expected to gradually recover from the three-year recession. However, some unfavorable conditions are darkening the prospect of the country's early economic recovery. The biggest stumbling block is the weakening U.S. dollar. The value of the U.S. dollar will likely continue to fall in 2004, as the U.S. runs huge current account and fiscal deficits.

The North Korean nuclear issue could be another drag on Korea's economic recovery. Although the situation may not be aggravated further, through efforts made by the participants of the six-party talks, but disputes among the participants over guaranteeing the security of the North Korean regime and determining nuclear inspection measures are likely to continue.

Domestic factors are also raising concerns. First, financial institutions have reduced their lending to households, thereby aggravating a credit crunch for households and increasing the number of individuals with bad credit. This could also prolong difficulties facing domestic retail financial institutions. The liquidity crisis faced by credit card companies has been somewhat alleviated by the efforts of those companies to increase their capital, improve profitability, and facilitate restructuring. There is also the possibility of another liquidity crisis, as credit card companies are suffering from 2 trillion won of new overdue loans every month, and rescheduled loans amount to 14.7 trillion won.

An unstable labor-management relationship and the upcoming elections for National Assembly members may also hinder the recovery of the domestic economy. Regardless of whether the ruling or opposition party wins, political instability may linger on for a while, thereby placing further pressure on the economy.

C. Prospects for the Korean economy in 2004

GDP growth: In 2004, external economic conditions for Korea will likely improve, as the global economy recovers from a three-year recession, brightening the prospects for the export sector. However, Korea's GDP is expected to grow by 4.3 percent, which is below the potential growth rate, due to sluggish domestic demand. Moreover, any further appreciation of the won may hurt the exports and could cause the economy to grow more slowly than the original forecast for 2004.

Private consumption: Private consumption, which remained stagnant in 2003, is forecast to grow by 2.9 percent year-on-year in 2004, as the government's tax cuts and supplementary fiscal spending, which start in the second half of this year, take full effect next year. Nevertheless, the recovery of private consumption is not expected to be as brisk as in the past, due to a staggering amount of household debt.

Investment: In 2004, investment in facilities is likely to increase by around 4.2 percent, as a recovery in the global IT industry pushes up investment in IT-related sectors, and the government takes measures to boost corporate investment. However, investment may not rise in earnest since ongoing labor disputes are eroding business sentiment and companies are failing to find many promising business opportunities. Construction investment, which was quite active in 2003, will slow down to an increase rate of about 3.0 percent. Due to the fact that the national housing distribution rate is higher than 100 percent and real estate prices are stabilizing (or even declining), housing sector investment will probably be sluggish, greatly offsetting the heightened public sector investment.

Exports: Korea's exports are forecast to grow at a rate of 8.5 percent, mainly led by a recovery in the global IT industry. High-tech products such as LCD/PDP TVs, semiconductors, and cellular phones will likely lead exports. Unfortunately, the expectedly stronger Korean won is apt to offset the increase. When it comes to the non-IT sector, export of automobiles is expected to fall, as a stronger won will weaken domestic carmakers' price competitiveness. And, though the shipbuilding industry is anticipated to continue to enjoy growing exports, the fallen Korean won/U.S. dollar exchange rate may possibly hurt the industry's profitability.

Imports: The increase in exports translates into a rise in imports of intermediate and capital goods. The boom in export of IT products, in particular, will raise imports of manufacturing equipment. Therefore, imports are forecasted to record 9.7 percent growth year-on-year, and reduce the trade surplus to an estimated \$7.09 billion in 2004 (down by \$1.27 billion from this year). The current account surplus is also expected to shrink to \$2.47 billion next year, down \$0.7 billion from this year.

Consumer prices: As for inflation, consumer prices will likely rise only 2.8 percent in 2004. At the moment, there are several upward pressures on consumer prices, including a possible (upward) revaluation of the Chinese yuan, and Korea's upcoming election of National Assembly members. Nevertheless, oil prices and exchange rates, which have the biggest impact on consumer prices, are anticipated to remain around current levels, thereby greatly contributing to overall price stability.

Unemployment: The unemployment rate is expected to decline slightly to 3.0 percent in 2004. The government's efforts to lower the unemployment rate for younger people are expected to bear some fruits. And the nation's economic recovery should create more jobs. However, the unemployment problem will be worse than the official figure of 3.0 percent suggests, as the number of "discouraged workers" continuously increases and the economic activity participation rate falls.

II. Agricultural Situation

A. Total Agricultural Imports

Korea is the size of the state of Indiana (99,853 square kilometers) and because it is so mountainous, only 18.7 percent of the total land mass is available for agricultural production. The number of people employed in agricultural, forestry and fisheries has declined from 58.5 percent in 1965 to only 9.3 percent in 2002.

Compared with the industrial and service sectors, agriculture has remained the most sluggish sector of the economy. In 2002, the contribution of agriculture to overall GDP was only about 4 percent. And yet, Korea has one of the most protective agricultural economies in the world, consisting of high production prices supported by government purchases and high tariffs that protect domestic producers from imports. This is unlikely to change, as Koreans are very sympathetic toward the farm sector and are very supportive of government protection (it was not that long ago that a majority of the population was farming.)

South Korea imported \$12.9 billion of agricultural, forestry and fishery products in 2002. The United States is the largest exporter of agricultural products to Korea, but imports from China are growing rapidly.

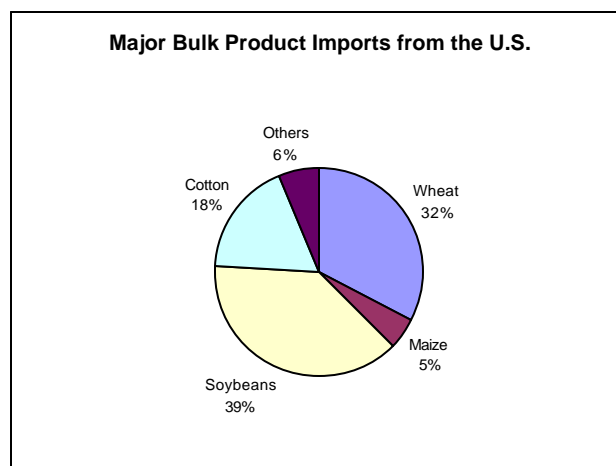
Korean Agricultural Imports in 2002		
Market Share	Country	Products
25.4 %	United States	Beef, Hides & Skins, Soybeans, Wheat, Citrus
18.4 %	China	Maize, Fish, Wheat, Ginseng, Plywood
10.3 %	European Union	Pork, Leather, Whey, Vegetable Saps & Extracts
8.4 %	Australia	Beef, Wheat, Sugar, Cotton, Logs

According to U.S. Census data, the United States exported \$3.1 billion of agricultural, fish and forest products to Korea in 2002 and it is forecast that exports in 2003 will reach \$3.4 billion. For the past several years, Korea has been ranked as the fourth largest U.S. agricultural export market; however, it is likely that China will surpass Korea in 2003. According to Korean import statistics, Korea imported \$3.3 billion of agricultural, fish and forest products in 2002. The difference can be attributed to the shipment time and the fact that U.S. Census data is FOB and Korean import statistics are CIF. For the rest of this report, we will use Korean import statistics and we will focus on the most recent January through September 2003 data.

Total agricultural imports through September 2003 were \$9.79 billion, up 2.9 percent from the same time last year. Imports from the U.S. represented 26.7 percent of total imports and were \$2.6 billion through September, up 5.7 percent from the same time last year. Korea depends on imports for about 70 percent of its food and feed consumption. The demand for imported food products will continue to increase as rising affluence and changing lifestyles foster greater consumption of diverse and international cuisines.

B. Bulk Product Imports

Bulk imports represented 23 percent, or \$605 million, of total imports from the U.S. through September 2003, up 5.8 percent from the same time last year. In the bulk category, the U.S. has a 28 percent market share and the major products are soybeans, wheat, cotton and maize.



Although the value of U.S. soybeans increased 25 percent to \$231 million, the volume was fairly stable. Soybean imports were 883,942 metric tons through September, only a 0.25 percent increase from the same time last year. The U.S. soybean price increased this year due to lower U.S. production in drought areas. The U.S. has an 81 percent market share in the Korean soybean import market.

Imports of U.S. wheat increased to \$196 million, up 30 percent by value and 1 million tons, up 9.2 percent by volume through September 2003. Noodle wheat imports have basically remained stable, but low protein wheat (below 8 percent) imports that are used in the confectionery

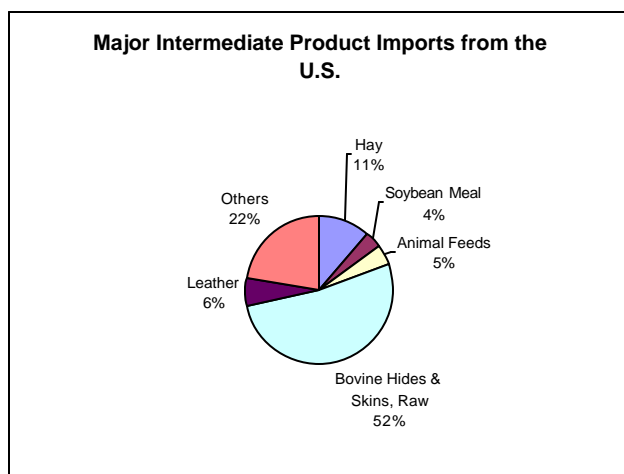
industry have gone up. Australia was unable to meet the demands of the Korean market for low protein wheat this year due to drought while the U.S. had great weather for this variety of wheat, especially in the Pacific Northwest. For a few months during the summer, many importers were worried about the weather and the price increased, but since September, the price has gone back down again. The U.S. has a 42 percent market share of total Korean wheat imports. Continued development and expanded planting of noodle wheat in the U.S. will have a favorable impact on total U.S. wheat sales to Korea.

Cotton processors attribute the trend toward U.S. (and Australian) cotton to a shift toward higher quality cotton. Korea can no longer be competitive against lower quality, inexpensive textiles produced in developing countries. Prices of U.S. cotton have also increased, approximately 38 percent due to heavy demand from China. Imports of U.S. cotton increased to \$108 million, up 11 percent by value, and decreased to 87,670 metric tons, down 5 percent by volume. The U.S. has a 37 percent market share in the Korean cotton market.

Maize imports have dropped significantly in recent years due to imports from China. Imports from the U.S. were \$31 million, down 67 percent by value, and 199,974 metric tons, down 76 percent by volume through September 2003. The U.S. currently has only a 5 percent market share of the total Korean maize import market.

C. Intermediate Product Imports

Imports of intermediate products (or products that receive some processing, but are generally not yet ready for final consumption) represented 24 percent or \$629 million of total imports from the U.S. through September 2003, down 2.3 percent from the same time last year. In the intermediate products category, the U.S. has a 28 percent market share and the major products are hides and skins, hay and fodder, leather of bovine, animal feeds, and soybean meal.



Hides and skins represent more than half of the total intermediate products category. Imports from the U.S. were \$329 million, down 5 percent by value, and 141,544 metric tons, down 16 percent by volume through September 2003. Although these products account for a large share of intermediate product imports, it is likely they will continue to decline slightly each year as the tanning industry moves to lower labor cost areas such as China. The U.S. has over a 90 percent share of this market.

Hay and Fodder imports have been steadily increasing; imports were \$70 million, up 13 percent by value, and 366,668 metric tons, up 6 percent by volume. The beef and dairy industries

have gradually switched from feeding rice straw to higher quality hay, such as fescue, Timothy or Bermuda, that offer better nutrition. In addition, the price of rice straw has increased to be comparable to imported straws. The U.S. has an 88 percent market share in the Korean hay and fodder market.

Soybean meal imports from the U.S. have received a tremendous boost this year as Korean users have learned the value of feeding dehulled meal. Imports were \$23 million, up 219 percent by value, and 103,249 metric tons, up 215 percent by volume through September 2003. Forty-two percent of local soybean meal demand is met through domestically processed soybeans of which 85 percent are purchased from the U.S. The remainder of the demand for soybean meal is imported.

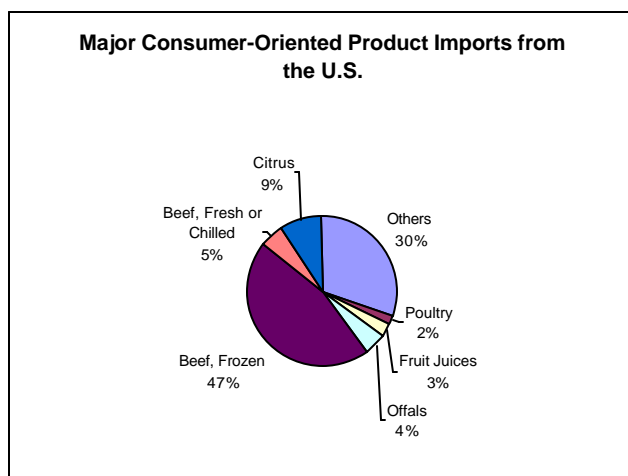
Animal feeds or pet food product imports were \$29 million, up 46 percent by value, and 26,441 metric tons, up 61 percent by volume through September 2003. Korea has become one of the fastest growing pet food markets in the world. Last year, Korean pet owners spent an estimated \$250 million on pet food, up 30 percent from 2001. The pet food market is increasing not only because people are buying more pets, but also as a result of rising incomes, pet owners are more willing to purchase higher quality pet food. Currently, 24 percent of locally consumed pet food is imported.

D. Consumer-Oriented Product Imports

Imports of consumer-oriented products (or high-value products) represented 45 percent or \$1.2 billion of total imports from the U.S. through September 2003, up 13.2 percent from the same time last year. In the consumer-oriented products category, the U.S. has a 42 percent market share and the major products are frozen beef, fresh/chilled beef, edible offals, citrus, fruit juices, and poultry.

The U.S. has a 66 percent share of Korean beef imports and it is expected to continue growing as domestic beef, Hanwoo beef, is almost five times the price of imported beef. Imports of frozen beef from the U.S. were \$535 million, up 31 percent by value, and 155,597 metric tons, up 11 percent by volume through September 2003. Ninety-five percent of beef imports from the U.S. is frozen beef and the remainder is fresh or chilled beef. Imports of fresh/chilled beef from the U.S. were \$62 million, up 122 percent by value and 11,717 metric tons, up 72 percent by volume through September 2003. Promoting chilled beef will be a major focus of beef importers in the next few years. The U.S. and Australia have also been exporting live cattle that will be fed for six months in Korea and then regarded as domestic beef, although not Hanwoo beef.

Edible offals are considered a delicacy in Korea, especially items like pork feet, intestines, livers, oxtails, and tongue. Korean will pay top dollar for these items. Imports were \$52 million, up 18 percent by value, and 18,996 metric tons, down 6 percent by volume through September 2003.



Unlike beef imports, poultry imports are declining. Imports were \$25 million, down 47 percent by value, and 36,762 metric tons, down 32 percent by volume through September 2003. The local poultry industry had been increasing production in order to export to other Asian countries; however, this was not successful and it has resulted in a surplus of chicken products on the local market. Additionally, imported chicken is not readily available at retail outlets, but offered as a restaurant item and the restaurant industry has fallen on hard times due to the sluggish Korean economy. In general, Korean consumers tend to prefer beef to poultry, as a result, the consumption of poultry is much lower.

Imports of U.S. citrus products, mostly navel oranges have grown steadily this year and are expected to increase even further next year due to the poor domestic fruit crop and the reasonable U.S. prices. Citrus imports from the U.S. were \$108 million, up 28 percent by value, and 138,482 metric tons, up 42 percent by volume through September 2003. The season for fruit production in Korea (March through May) has been unusually wet and cloudy this summer, which has impacted output and quality. It is anticipated by citrus importers that next year Korea will also import large quantities of citrus products from the U.S. Likewise, imports of fruit juices, mostly orange juice, will benefit from the lower domestic fruit production.

III. Promotional Opportunities

ATO Seoul focuses promotional efforts on several major activities throughout the year aimed at promoting U.S. consumer-oriented and other products. Upcoming events include:

Nov 2003 1st Busan International Seafood & Fisheries Exposition
For more information: www.busanseafoodexpo.com

- Mar 2004 Food and Hotel Korea 2004
A trade-only show targeting the imported food, beverage and equipment market.
For more information: www.fhko.com
- Mar 2004 Boston Seafood Show 2004
ATO Seoul will host a group of Korean seafood buyers to the Show.
For more information: SehWon.Kim@usda.gov
- Apr 2004 Seoul Wine Expo 2004
For more information: SangYong.Oh@usda.gov
- Apr 2004 Ocala, Florida Race Horse Auction
ATO Seoul will host a group of Korean race horse buyers to the Auction.
For more information: SehWon.Kim@usda.gov
- May 2004 National Restaurant Association 2004
ATO Seoul will bring a group of food service importers to the Show.
For more information: SangYong.Oh@usda.gov
- May 2004 All Things Organic/FMI
ATO Seoul will bring a group of organic processed product buyers to the Show
WUSATA will host this group in Arizona and New Mexico
For more information: YoungSook.Oh@usda.gov

IV. KEY CONTACTS AND FURTHER INFORMATION

For further information about the Korean agricultural market, please contact:

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Website: www.atoseoul.com

Agricultural Affairs Office

Korean Address: U.S. Embassy, 82, Sejong-ro, Chongro-ku, Seoul, South Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

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For more information on how you can register for USDA/FAS's Supplier List:

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS worldwide to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA FAS Overseas offices, such as the ATO in Seoul to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at <http://www.fas.usda.gov/agexport/exporter.html>